

# Peninsula Energy (PEN)

Rating: Buy | Risk: High | Price Target: \$0.31

11 April 2024

## Firming up funding requirements ahead of first production

### Key Information

Current Price (\$ps)	0.11
12m Target Price (\$ps)	0.31
52 Week Range (\$ps)	0.08 - 0.20
Target Price Upside (%)	177.2%
TSR (%)	177.2%
Reporting Currency	USD
Market Cap (\$m)	239
Sector	Energy
Avg Daily Volume (m)	6.9
ASX 200 Weight (%)	0.01%

### Fundamentals

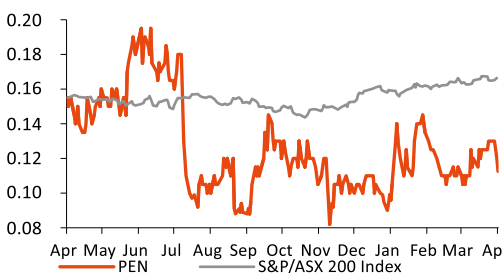
YE 30 Jun (USD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	40	14	45	133
NPAT (\$m)	(4)	(1)	(0)	61
EPS (cps)	(0.3)	(0.1)	(0.0)	2.5
EPS Growth (%)	23.3%	73.2%	75.7%	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY23A	FY24E	FY25E	FY26E
P/E (x)	(36.3)	(88.3)	nm	3.0
EV/EBITDA (x)	(32.6)	(78.5)	36.4	1.9
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(0.9%)	(19.3%)	10.2%	(36.2%)
Absolute (%)	1.0%	(16.6%)	14.8%	(28.8%)
Benchmark (%)	1.9%	2.7%	4.6%	7.4%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Paradise Investment Management	8.8%
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### Event

Peninsula Energy has announced Samuel Engineering as the contractor for the engineering, procurement and construction services for the Ross Central Processing Plant for the Lance Uranium Project in Wyoming, US. The capex estimate has increased by US\$20m (+40%) but the overall funding requirement to reach free cash flow positive has only increased by US\$5m due to the stronger uranium price. Our price target reduces from A\$0.34 to A\$0.31ps.

### Highlights

- Lance is an In-Situ Recovery (ISR) uranium project whereby uranium is leached from the orebody in an acid solution before being recovered in an ion-exchange resin. In August Peninsula announced an updated processing plan which included:
  - First production in Dec-24 and ramping up to 1.8Mlb steady state by 2029.
  - Remaining capex to first production of US\$53.4m, with a further US\$17.4m required to reach full production rates. The peak funding requirement to get to breakeven cash flow was estimated at US\$95m.
  - C1 operating costs of US\$21.69/lb and AISC of US\$42.46/lb.
- Peninsula has today announced that the capex has increased by US\$20m, which is a surprisingly large increase (~40%) in a relatively short period of time. Some of the increase is related to expediting delivery of material and equipment to maintain the first production schedule of Dec-24, which remains unchanged. Spending up to maintain production timelines in a strong uranium market makes strategic sense.
- The overall additional funding requirement to reach free cash flow positive (from the start point of August 2023) is relatively unchanged at US\$100m, up from US\$95m. This is largely due to the higher uranium price which will allow Peninsula to capture higher revenues in the period from first production until the operation reaches sustainable free cash flow. In A\$ terms, the A\$150m required to fully fund the project which was split A\$60m equity, A\$40m options and A\$50m debt has not materially changed.
- Peninsula has already spent ~US\$22m on the project and will require approximately US\$135m in further expenditure to reach free cash positive. This will be sourced from cash, revenue from uranium sales, debt and/or equity. The current cash position is US\$49.6m (post recent raise), in-the-money options should contribute US\$22.2m and revenue from uranium sales will total about US\$36m. This leaves approximately US\$30m to be sourced from debt and/or equity, with the company finalising debt options.
- Peninsula has indicated that it is working with the US Government for the project's debt requirements. Given the US Government's support for a domestic uranium industry, and a desire to break the reliance on Russian imported material, we expect the US Government to be supportive.
- In our view, questions around Peninsula's funding are continuing to hold the company's share price back compared to its peer group. In that regard, finalising the debt position will be a key re-rating event. Alternatively, Peninsula could consider returning to the equity market to fully fund the project.
- Peninsula has existing contracts with a range of utility counterparties. Peninsula has confirmed that all customers have agreed to delivery schedules to align with the current forecast production. The next product delivery is scheduled in 2025 after production has commenced at Lance. We expect the first shipment to be made in the Jun-25 quarter.

### Recommendation

We retain our BUY recommendation but reduce our price target to A\$0.31ps from A\$0.34ps due to the higher capex estimate. Catalysts for the share price to reach our price target include further progress on securing a debt facility, construction milestones at Lance being achieved and first production in late 2024.

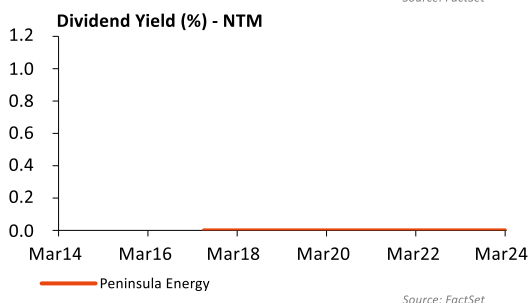
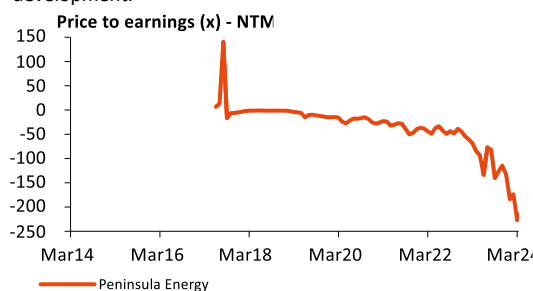
**Peninsula Energy**  
Energy  
Energy

FactSet: PEN-AU / Bloomberg: PEN AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.11
Target Price (\$ps)	0.31
52 Week Range (\$ps)	0.08 - 0.20
Shares on Issue (m)	2,118
Market Cap (\$m)	239
Enterprise Value (\$m)	222
TSR (%)	177.2%

**Company Description**

Peninsula Energy is an ASX listed company that owns the Lance Uranium Project in Wyoming, USA which are in transition from an alkaline to a low pH in-situ recovery operation. The Lance Project requires low upfront capital and can rapidly restart post a Final Investment Decision. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development.



**Financial Year End: 30 June**

Investment Summary (USD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	(0.4)	(0.3)	(0.1)	(0.0)	2.5
EPS (Underlying) (cps)	(0.4)	(0.3)	(0.1)	(0.0)	2.5
EPS (Underlying) Growth (%)	(64.3%)	23.3%	73.2%	75.7%	nm
PE (Underlying) (x)	(26.2)	(36.3)	(88.3)	nm	3.0
EV / EBIT (x)	(24.8)	(32.6)	(78.5)	(152.3)	2.3
EV / EBITDA (x)	(24.8)	(32.6)	(78.5)	36.4	1.9
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	1.0%	(5.7%)	(32.1%)	(40.0%)	15.2%
Profit and Loss (USD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	18	40	14	45	133
Sales Growth (%)	87.2%	120.8%	(66.5%)	232.7%	194.7%
Other Operating Income	1	0	0	0	0
EBITDA	(6)	(4)	(2)	4	75
EBITDA Margin (%)	(31.9%)	(11.0%)	(13.7%)	8.9%	56.5%
Depreciation & Amortisation	0	0	0	(5)	(13)
EBIT	(5.8)	(4.4)	(1.8)	(1.0)	62.1
EBIT Margin (%)	(31.9%)	(11.0%)	(13.7%)	(2.1%)	46.9%
Net Interest	0	0	0	0	(1)
Pretax Profit	(6)	(4)	(1)	(0)	61
Minorities	0	0	0	0	0
NPAT Underlying	(6)	(4)	(1)	(0)	61
Significant Items	(1)	0	0	0	0
NPAT Reported	(5)	(4)	(1)	(0)	61
Cashflow (USD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(6)	(4)	(2)	(1)	62
Tax Paid	0	0	1	0	0
Net Interest	0	0	0	0	(1)
Change in Working Capital	0	0	(5)	(6)	(29)
Depreciation & Amortisation	0	0	0	5	13
Other	8	9	0	0	0
Operating Cashflow	2	5	(5)	(2)	44
Capex	(1)	(12)	(35)	(66)	(17)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	(0)	0	0	0
Investing Cashflow	(1)	(12)	(35)	(66)	(17)
Free Cashflow	1	(7)	(40)	(68)	28
Equity Raised / Bought Back	0	21	43	23	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	35	0
Other	(0)	0	0	0	0
Financing Cashflow	(0)	21	43	58	0
Exchange Rate Effect	(0)	0	0	0	0
Net Change in Cash	1	14	3	(10)	28
Balance Sheet (USD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	8	21	24	14	41
Accounts Receivable	1	1	1	4	11
Inventory	15	12	14	20	44
Other Current Assets	6	0	0	0	0
PPE	19	24	55	110	112
Total Assets	51	62	98	151	211
Accounts Payable	1	4	1	3	4
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	35	35
Total Liabilities	15	19	17	54	55
Total Shareholder Equity	73	91	133	155	215
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(5.3%)	(4.2%)	(1.3%)	(0.3%)	32.6%
Gearing (%)	(11.3%)	(30.3%)	(22.2%)	11.9%	(3.1%)
Net Debt / EBITDA (x)	1.3	4.8	13.1	5.3	(0.1)
Price to Book (x)	1.4	1.6	1.2	1.2	0.8

### Lance Uranium Project

Lance is an In-Situ Recovery (ISR) uranium project whereby uranium is leached from the orebody in an acid solution before being recovered in an ion-exchange resin.

Peninsula revised its plan for Lance in August 2022 after the cancellation of a resin processing contract with Uranium Energy Corp (UEC:NYSE not covered). The original plan had a staged expansion of Lance with initial production of the uranium bearing resins being processed by UEC at the Irigaray Central Processing Plant to produce a finished yellowcake product.

Peninsula is accelerating the construction of its own resin processing plant at Lance and is moving directly to a larger project. Peninsula has today announced Samuel Engineering as the contractor for the engineering, procurement and construction services for the Ross Central Processing Plant for the project.

Key features of the project include:

- First production in Dec-24 and ramping up to 1.8Mlb steady state by 2029.
- Remaining capex to first production of US\$73.4m (revised up from US\$53.4m), with a further US\$17.4m required to reach full production rates. The peak funding requirement to get to breakeven cash flow is US\$100m (revised up from US\$95m), of which approximately US\$22m has already been spent.
- C1 operating costs of US\$21.69/lb with AISC at US\$42.46/lb.

### Funding Requirement

In its August-23 update, Peninsula outlined a total funding requirement to reach sustainable positive free cash flow of US\$142.4m. This included capex to reach first production and further investment in well fields post first production.

Post cash of US\$21.4m and revenue from uranium sales of US\$26m, this left an additional funding requirement of US\$95m from debt and equity.

In Nov-23 Peninsula Energy announced a A\$60m equity raise via a A\$50m placement and A\$10m SPP at 7.5cps. The additional shares have an associated 1-for-2 option exercisable at 10cps which will raise an additional A\$40m when exercised. A\$5.7m (US\$3.4m) of those options have already been exercised leaving A\$34.2m (US\$22.2m) remaining.

Figure 1: Sources and uses of funds

<b>Sources (US\$M)</b>	<b>142.4</b>
Cash Balance as of 30 June 2023	21.4
Revenue on Sales (net of purchases)	26.0
Net additional Funding Needed	95.0
<b>Uses (US\$M)</b>	<b>142.4</b>
Plant CAPEX	25.2
Wellfield CAPEX	41.2
Site OPEX and Overheads	44.3
CAPEX and OPEX Contingency plus escalation	9.4
Corporate Costs, Non-site Exploration, Working Capital	22.3

Source: Peninsula ASX release 31-Aug-23

In the table below we restate the sources and uses of funds to reflect changes since the August update. Post the US\$20m capex increase, US\$22m in sunk capex and savings in pre-production opex of A\$5m, we now calculate that Peninsula has US\$135.4m left to spend before reaching a cash flow positive position.

Today's cash position is US\$49.6m post the above-mentioned equity raise, options exercise and capital spend.

In-the-money options will generate an additional US\$22.2m of cash.

Higher uranium prices since the August update mean that Peninsula should generate revenue of around US\$36m, up US\$10m from the estimate in August.

That leaves a further US\$27.6m (A\$42.5m) needing to be sourced from debt or equity markets.

Figure 2: Funding – Sources and Uses – Changes since August 2023

Funding requirement (US\$m)	Aug-23	Apr-24	Funding requirement (A\$m)	Aug-23	Apr-24
<b>Total Project Cost</b>	<b>142.4</b>	<b>142.4</b>	<b>Total Project Cost</b>	<b>219.1</b>	<b>219.1</b>
Capex increase		20.0	Capex increase		30.8
Capex sunk		-22.0	Capex sunk		-33.8
Project savings		-5.0	Project savings		-7.7
Remaining spend	142.4	135.4	Remaining spend	219.1	208.3
<b>Funded by:</b>			<b>Funded by:</b>		
Cash	21.4	49.6	Cash	32.9	76.3
Options to be exercised		22.2	Options to be exercised		34.2
Revenue from uranium sales	26.0	36.0	Revenue from uranium sales	40.0	55.4
<b>Other sources</b>	<b>95.0</b>	<b>27.6</b>	<b>Other sources</b>	<b>146.2</b>	<b>42.5</b>

Source: Peninsula ASX release 31-Aug-23, Shaw and Partners analysis

We have mapped out Peninsula's expected quarterly cash flow out to the end of FY25 which is expected to be the low point of cash flow. Peninsula should be cash flow positive in the September quarter of 2025.

In the table below we assume that the remain options are exercised in the September quarter, along with the finalisation of a US\$30m debt package.

We assume that first production is achieved in December 2024, with first uranium sales in the June quarter of 2025.

Figure 3: Peninsula Quarterly Cash flow FY24/25

Peninsula Energy	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Operating cash flow (US\$m)	-1.46	10.39	-1.00	-1.00	-1.00	-5.00	-7.00	6.53	10.50
Investing cash flow (US\$m)	-7.43	-4.95	-10.00	-12.62	-14.00	-22.00	-17.00	-12.50	-4.00
Financing cash flow (US\$m)	0.00	0.00	42.70	0.00	52.20	0.00	0.00	0.00	
Cash position (US\$m)	12.52	17.94	49.64	36.01	73.21	46.21	22.21	16.24	22.74

Source: Company reports, Shaw and Partners analysis

### Key risks

- As a small mining company broadly exposed to a single commodity and a single asset we consider an investment in Peninsula Energy to be high risk. The key risks include:
- The U3O8 market is relatively opaque and difficult to forecast. The actual uranium price may differ substantially from our forecasts.
- Operations for PEN have not yet started and there is a risk that they may be unable to bring Lance Projects to production in line with expectations. Costs may be higher and operations may not be as expected.
- Resource risks - PEN's 2022 Ross and Kendrick DFS assumes an overall resource recovery of 66% and a resource conversion of 61% to convert the Ross and Kendrick Area Inferred resources to Indicated or greater quality.
- PEN will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company's licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

### Core drivers and catalyst

- PEN's flagship Lance Projects in Wyoming, USA, requires low upfront capital and can rapidly restart. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development.
- PEN's flagship Lance Projects in Wyoming, USA, requires low upfront capital and can rapidly restart. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development. We have a A\$0.27ps price target which is based on a 1.3x multiple of our base case valuation.
- PEN has an existing contract book and product inventory, with a binding purchase agreement netting a cash margin of US\$7.8m in CY2021 (450klbs) and >US\$9m in CY22 (450klbs). The company has long-term sales contracts extending to 2033, up to 5.25Mlbs at US\$56-58/lb U3O8 with major utilities across Europe and the US.
- The company is switching operations from high to low pH in order to increase product yields. The results of an 18-month field demonstration indicated that the targeted low-pH chemistry and field patterns are effective in dissolving and recovering uranium.
- The company released a Definitive Feasibility Study in Aug22 which details a Lance Projects NPV8 (pre-tax) of US\$125m and 43% IRR at an average U3O8 price of US\$62/lb. Other components include. In August 2023 the company released a revised plan to move directly to the previous stage 2 operation. Key parameters include: a life of mine (LOM) of 10 years with a plateau production of 1.8Mlbs/yr, upfront capital expenditure of ~US\$70m, and an estimated All-in-Sustaining-Cost (AISC) of US\$42/lb U3O8 over LOM.
- In our view there are two key advantages to PEN's project being located in Wyoming, USA: the Powder River Basin in Wyoming is in an established uranium and mining jurisdiction (uranium mining for ~70 years and coal mining for ~150 years), and the company has direct exposure to the US Government uranium purchase program and the US Nuclear Fuel Working Group.

## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

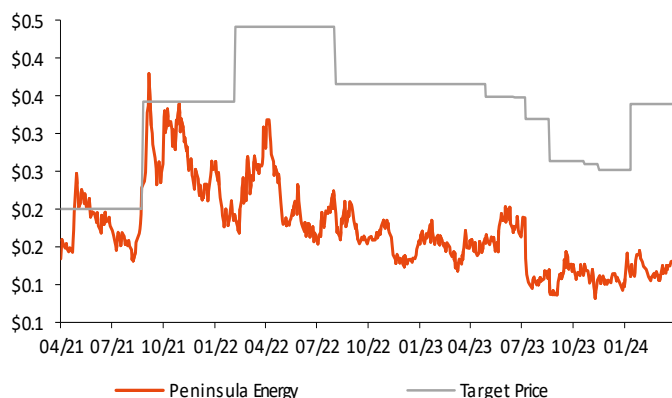
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### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	64	90%
Hold	6	8%
Sell	1	1%

### History of Investment Rating and Target Price - Peninsula Energy

Date	Closing Price (\$)	Target Price (\$)	Rating
11-Apr-24	0.11	0.31	Buy
22-Jan-24	0.11	0.34	Buy
27-Nov-23	0.11	0.25	Buy
1-Nov-23	0.13	0.27	Buy
31-Aug-23	0.09	0.27	Buy
19-Jul-23	0.13	0.31	Buy
27-Jun-23	0.17	0.34	Buy
9-May-23	0.15	0.34	Buy
15-Aug-22	0.18	0.34	Buy
17-Feb-22	0.17	0.40	Buy
5-Sep-21	0.20	0.30	Buy
2-Jun-21	0.18	0.17	Buy



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